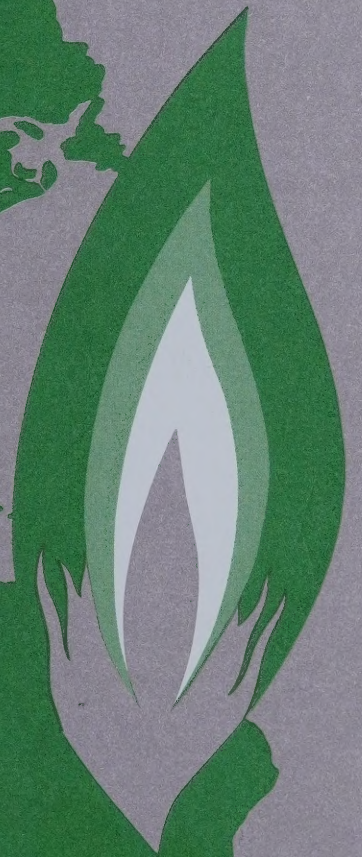


AR27

uplace

1981 ANNUAL REPORT



Place Gas & Oil Company Limited

CONTENTS

Directors & Officers	1
President's Report	2-3-4
Balance Sheet	8
Statement of Income	9
Statement of Deficit, Statement of Changes in Financial Position, and Auditor's Report	10
Notes to Financial Statements	11-12
Map — Lake Erie Offshore Gas Fields	5
Map — Arctic Islands	6-7

FOR THE INFORMATION OF SHAREHOLDERS, THE VALUE OF A SHARE OF
THE COMPANY ON VALUATION DAY, DECEMBER 22, 1971, WAS \$1.00.

PLACE GAS & OIL COMPANY LIMITED

DIRECTORS

J.D.S. Bohme, Q.C.,	Toronto, Ontario
Sir Michael Butler, Bart., Q.C.	Victoria, B.C.
D.C. Early	Toronto, Ontario
W.H. German	Montreal, Quebec
W.D. Gill, M.A., D.Sc.,	Yorkshire, England
C.R.J. Smith	Toronto, Ontario
E.H. Smouha	Geneva, Switzerland
P.G. Turner	Toronto, Ontario

OFFICERS

C.R.J. Smith	<i>President</i>
Sir Michael Butler, Bart., Q.C.,	<i>Vice-President</i>
H.C. Gibson, B.Sc.,	<i>Vice-President Exploration</i> Calgary, Alberta
J.D.S. Bohme, Q.C.,	<i>Secretary</i>
G.H. Weston	<i>Treasurer</i>

HEAD OFFICE

Suite 3916 — Royal Trust Tower, Toronto, Ontario, M5K 1H6

FIELD OFFICE

Nanticoke, Ontario N0A 1L0

TRANSFER AGENT & REGISTRAR

Canada Permanent Trust Company,
Toronto, Ontario

AUDITORS

Touche Ross Co.

PLACE GAS & OIL COMPANY LTD. (DELAWARE)

Wholly owned United States Subsidiary Company

Suite 220, Neustadt Plaza,
333 West Main St., Ardmore, Oklahoma, 73401, U.S.A.

PLACE OIL & GAS COMPANY (U.K.) LIMITED

Wholly owned English Subsidiary Company

35 Basinghall Street, London EC2V 5DB, England

PLACE GAS & OIL COMPANY LIMITED

PRESIDENT'S REPORT

To the Shareholders:

On behalf of the Board of Directors, it gives me great pleasure to report the Company's 1981 operations, consolidated statement of accounts, current activities and plans for 1982.

Gross Revenue of \$1,555,782.00 showed an increase over 1980 of approximately \$200,000.00. Unfortunately, our expenses increased by just over \$200,000.00 — caused primarily by the Petroleum and Gas Revenue Tax under the new National Energy Program and Bank Interest. However, our earnings per share, before extraordinary items, were approximately the same as last year — which we consider progressive in view of the state of confusion in the oil and gas industry, caused by the National Energy Program.

Planned operations for 1982 include further drilling in Lake Erie and an aggressive exploration program on our U.S.A. holdings in Montana. In addition, as the economic climate improves, further drilling in Alberta will continue.

Lake Erie

Your Company held in good standing offshore Lake Erie at the end of 1981, a 100% interest in 47,686 acres of Leases and Licences of Occupation and a 50% interest in 26,846 acres of Leases and Licences of Occupation.

In Lake Erie during the 1981 drilling season, 5 wells were drilled on your Company's wholly owned property, 4 of which were placed on production and one well was abandoned. Your Company now owns a 100% interest in 61 commercial gas wells and a 50% interest in 34 commercial gas wells. In addition to the joint activities with Mitchell Energy in which your Company participates on a 50% basis, your Company, through its own gathering

system under Lake Erie, continued to sell its gas to the Union Gas Company on the shore of Lake Erie at points located at Selkirk and Port Dover, Ontario, and to Consumer's Gas Company at Port Maitland, Ontario. Its Field Office, Operation Yard and marine equipment etc. are located at Nanticoke, Ontario.

During the 1982 season it is expected to drill 3 wholly owned wells and carry out a substantial maintenance program throughout our Lake Erie Gas Fields.

Alberta

Continued uncertainties created by the political activities of both the Federal and Provincial Governments restricted the marketing of natural gas in Alberta and removed incentives for an aggressive exploration program which resulted in our various programs for further drilling being postponed pending clarification of government policies.

The Westhill Boundary Lake Well No. 8-33 was drilled to test an offset location to our Boundary Lake No. 6-33 producing oil Well and was abandoned. The Boundary Lake Oil Well No. 6-33 (in which we have a 25% interest reduced to 12½% after cost payout), produced a 36 gravity crude at a tested rate of 408 barrels a day and has now been cut back to a pro-rated flow of approximately 75 barrels a day (marketing is again a problem). As of January 1st, 1982, we receive the new oil price for this production. Our three capped gas wells in the Bantry Field of Southern Alberta with an estimated gas reserve of 3½ billion cu.ft., of which your Company's ownership is 25%, and our capped gas well in the Drumheller Field, Alberta, are expected to be placed on production in late 1982 — and this should substantially improve our gas flow at that time.

Canadian Arctic Islands

In the Arctic Islands, located in the Sverdrup Basin, your Company holds a 1.35% interest in approximately 830,000 acres and varying interests (.2025% to .675%) in approximately 300,000 acres on the Sabine Peninsula, Melville Island, which includes the bulk of the Drake Gas Field and part of the Hecla Gas Field; also part of the Gas Field located on King Christian Island and part of the Gas Field located on Lougheed Island (see map).

Pacific Lighting Gas Development Company of California provided certain funds to pay the costs of drilling wells in the Drake and Hecla Fields etc., in return for a call on the gas, which is repayable only out of 25% of the value of gas, when sold.

Your Company's interest in the Arctic Islands is 1.35% of a possible 10 trillion cu.ft. of proven gas reserves. Panarctic Oils Limited, the Operator, with the most advanced underwater technology, is preparing the Drake and Hecla Fields for gas production, and latest plans are to pipeline from the base of the Sabine Peninsula to the south shore of Melville Island, where the gas will be liquefied and transported by L.N.G. tankers down the east coast to Canadian and U.S. markets. The actual completion of this project is expected in the mid 1980's. As further gas reserves are developed, pipelining will be considered.

In addition, your Company has a 2.647% interest in 931,000 acres offshore the Hazen Strait just west of the Sabine Peninsula, Melville Island. The Phillips Aquit Hazen F54 Well with Panarctic Oils as suboperator, was drilled from an ice platform in February, 1979. Climatic conditions allowed sufficient time to reach the initial target depth of 10,000' but did not allow the deepening of the well to further horizons expected. Numerous gas showings were encountered but the well was not considered to be commercial and was abandoned. The Whitefish well, located about 100 kilometers to the east of the Hazen Strait holdings, and other wells drilled near Lougheed Island by another consortium, have proven beyond doubt a huge gas reserve. The participants in the Hazen Strait acreage are: 50% Phillips, 10% Panarctic, 25% Aquitaine, 6.175% B.P., 6.175% Prairie, and 2.647% Place. The Hazen Strait group is currently participating in a more detailed seismic program to establish drilling locations. Your Company is also participating in a seismic program with Panarctic Oils in the proven Drake Field on the Sabine Peninsula, Melville Island, to

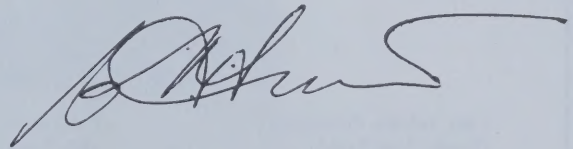
establish well sites at deeper horizons. The recent results of Panarctic Oils 1982 drilling near Lougheed Island verifying a substantial oil field in this area, should greatly enhance the value of our own holdings nearby.

United States

Our current land holdings under lease in Oklahoma and Texas total approximately 2,700 acres. Your Company is continuing to receive modest oil production from the Richardson Well, North McCarty Area, Garvin County, Oklahoma; and also holds a capped gas well in the Pottsboro area, Grayson County, Texas. By the drilling of the Blackhawk Cooper 23-14 Well, your Company earned a 35% interest in 8,400 gross acres or 6,079 net acres in Carter County, Montana, through its U.S. Subsidiary. Although testing of the well indicated substantial natural gas, it was abandoned owing to technical difficulties, and further development by drilling in this area will be undertaken during the 1982 season.

On behalf of the Directors, management sincerely acknowledges the support of its staff and the support and confidence received from its shareholders and cooperation of its exploration associates.

On behalf of the board,



CLIFFORD R.J. SMITH
President and Managing Director.
April 21st, 1982

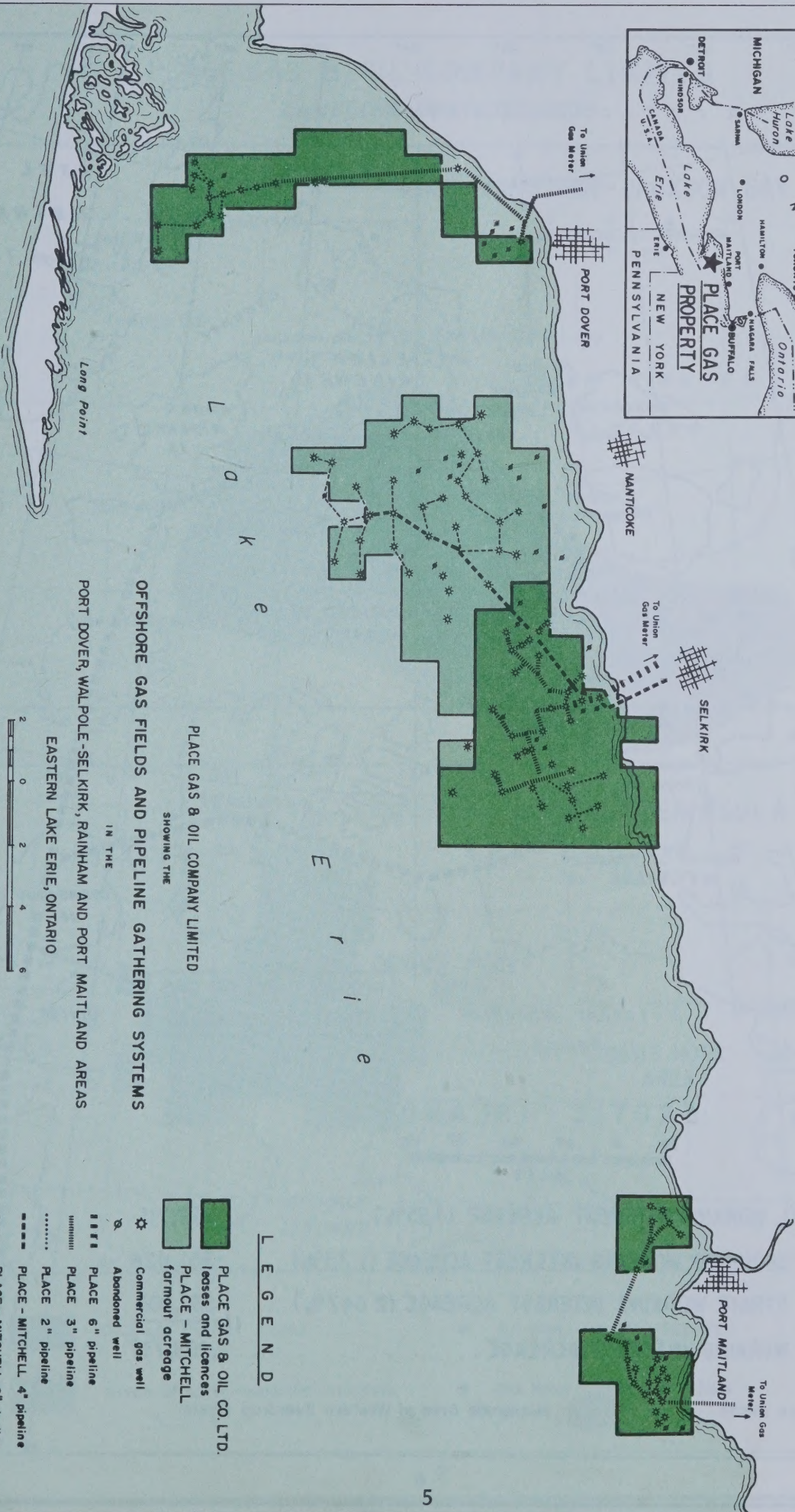
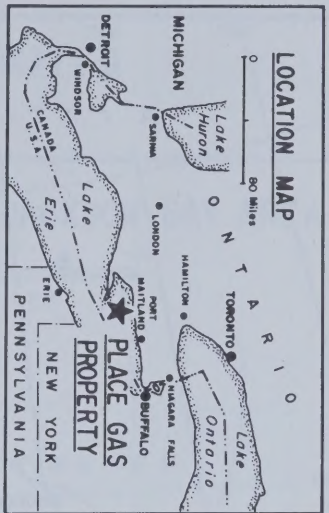
PLACE GAS & OIL COMPANY LIMITED

Original Arctic Islands Holdings

<u>Location</u>	<u>Operator</u>	<u>Total Acreage</u>	<u>Net % Interest</u>	<u>Permit Numbers</u>
Sabine Peninsula Melville Island	Panarctic Oils Ltd.	689,145	1.35	472, 474 & 477 to 488
King Christian Island	" "	81,356	1.35	503, 506 & 870
Lougheed Island	" "	<u>57,210</u>	1.35	501 & 502
<u>TOTAL Original Holdings</u>		<u>827,711</u> Acres		

After Acquired Arctic Islands Holdings

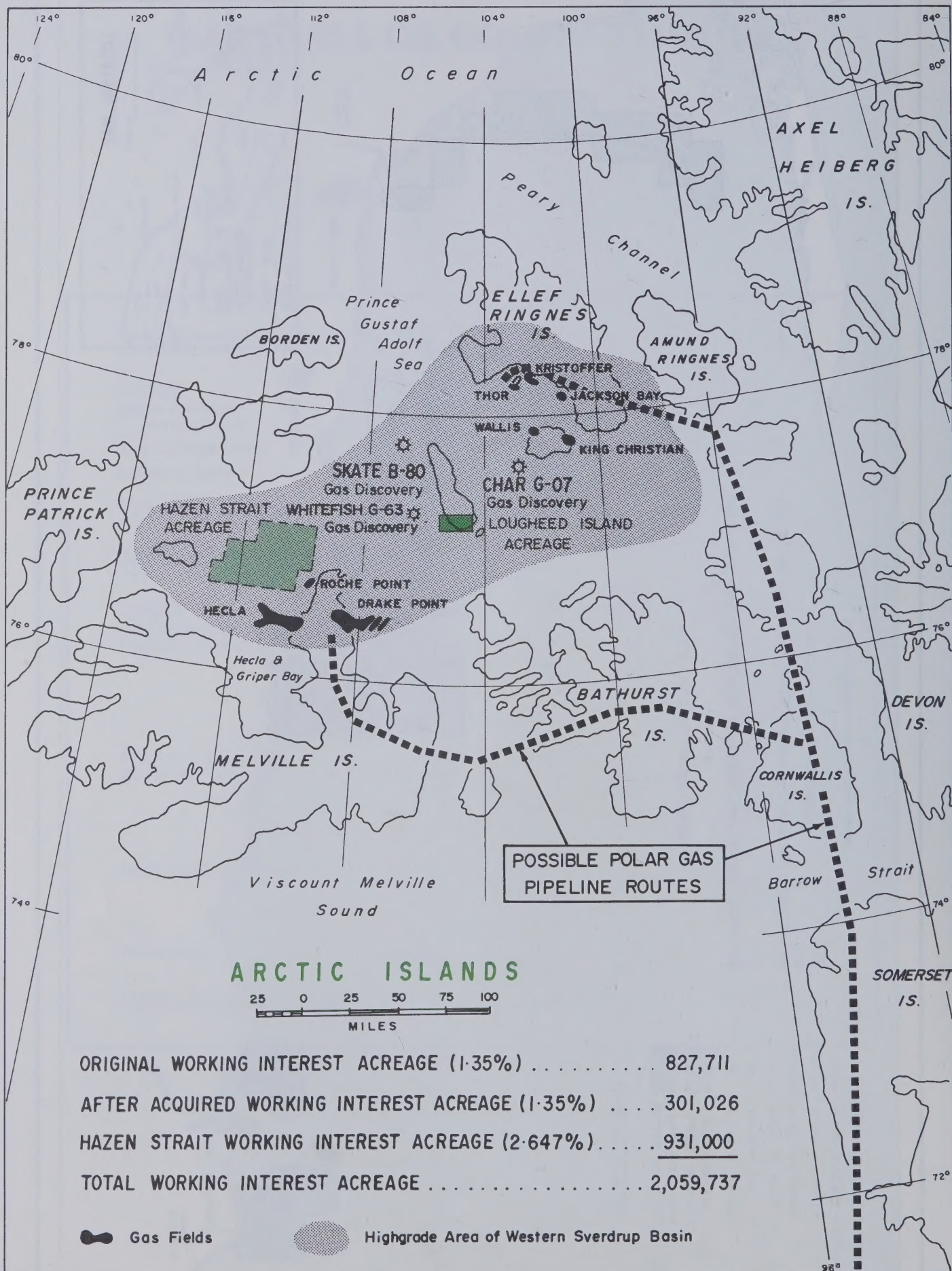
<u>Location</u>	<u>Operator</u>	<u>Total Acreage</u>	<u>Net % Interest</u>	<u>Permit Numbers</u>
West Sabine Peninsula (Hecla Gas Field)	Panarctic Oils Ltd.	30,420	.675	1832
		30,601	.675	2474
		30,148	.675	2473
		15,210	.675	2715 (1/2)
		14,938	.675	3132 (1/2)
		<u>121,317</u>		
East Sabine Peninsula (Drake Gas Field)	Panarctic Oils Ltd.	30,057	.2025	1829
		30,148	.3375	1985
		30,601	.675	701
		30,601	.675	702
		<u>121,407</u>		
North Sabine Peninsula	Panarctic Oils Ltd.	29,151	.54	1568
		29,151	.54	1567
		<u>58,302</u>		
Hazen Strait	Phillips Petroleum	<u>931,000</u>	2.647	2699 to 2714
<u>TOTAL After Acquired Holdings</u>		<u>1,232,026</u> Acres		



PLACE GAS & OIL COMPANY LIMITED
SHOWING THE
OFFSHORE GAS FIELDS AND PIPELINE GATHERING SYSTEMS
IN THE
PORT DOVER, WALPOLE-SELKIRK, RAINHAM AND PORT MAITLAND AREAS
EASTERN LAKE ERIE, ONTARIO

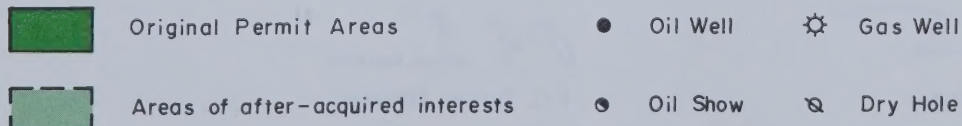
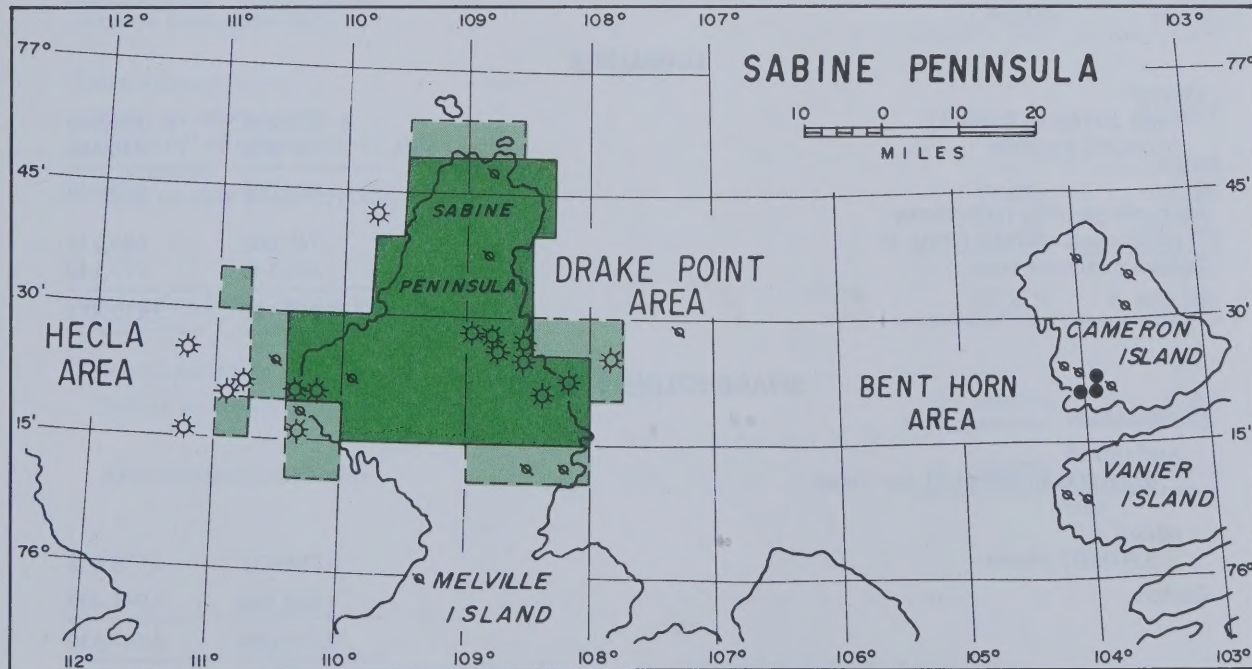
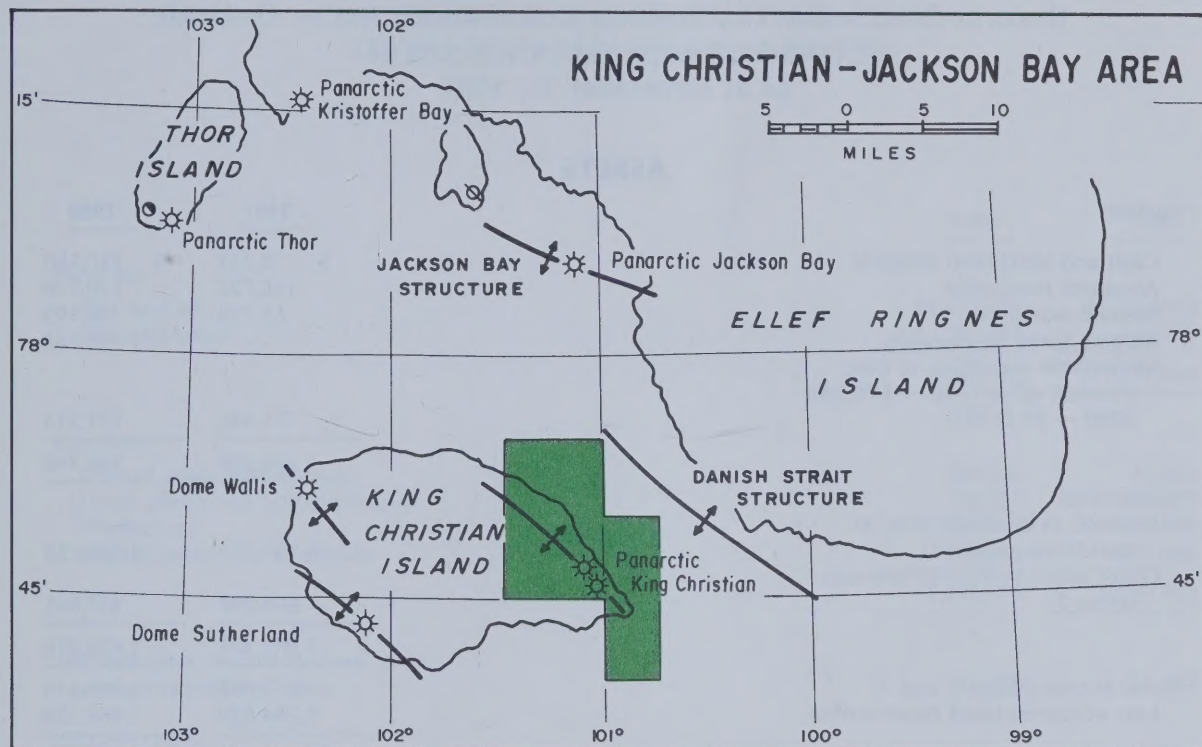
LEGEND

- PLACE GAS & OIL CO. LTD.
leases and licences
- PLACE - MITCHELL
farmout acreage
- Commercial gas well
- Abandoned well
- PLACE 6" pipeline
- PLACE 3" pipeline
- PLACE 2" pipeline
- PLACE - MITCHELL 4" pipeline
- PLACE - MITCHELL 2" pipeline



PLACE GAS & OIL COMPANY LIMITED

CANADIAN ARCTIC ISLANDS



PLACE GAS & OIL COMPANY LIMITED

(Incorporated under The Business Corporations Act — Ontario)

CONSOLIDATED BALANCE SHEET

as at December 31, 1981

ASSETS

Current	1981	1980
Cash and short-term deposits	\$ 5,223	\$ 210,180
Accounts receivable	145,723	129,176
Prepaid expenses	65,718	46,193
Income taxes recoverable	—	39,183
Marketable securities, at cost (market value 1981 — \$76,840; 1980 — \$142,592)	71,845	121,514
	<u>288,509</u>	<u>546,246</u>
Investments		
Interests in oil syndicates, at cost (Notes 4 and 5)	1,147,385	1,020,755
Other investments and interests (Note 2)	668,092	457,861
	<u>1,815,477</u>	<u>1,478,616</u>
Fixed, at cost (Notes 1 and 3)	4,677,052	4,449,416
Less accumulated depreciation	1,784,829	1,604,526
	<u>2,892,223</u>	<u>2,844,890</u>
	<u><u>\$4,996,209</u></u>	<u><u>\$4,869,752</u></u>

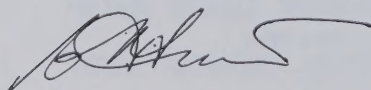
LIABILITIES

Current		
Bank advances (Note 7)	\$ 576,614	\$ 204,550
Accounts payable	87,391	435,489
	<u>664,005</u>	<u>640,039</u>
Amounts payable from future production revenue (Note 4)	742,000	695,234
Deferred income taxes	860,140	777,140
	<u>2,266,145</u>	<u>2,112,413</u>

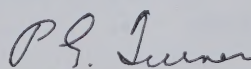
SHAREHOLDERS' EQUITY

Capital stock		
Authorized 8,000,000 shares of \$1 par value each		
Issued 5,800,007 shares	3,798,632	3,798,632
Deficit	1,068,568	1,041,293
	<u>2,730,064</u>	<u>2,757,339</u>
	<u><u>\$ 4,996,209</u></u>	<u><u>\$4,869,752</u></u>

On behalf of the Board



C.R.J. Smith, Director



P.G. Turner, Director

See accompanying notes to consolidated financial statements.

PLACE GAS & OIL COMPANY LIMITED

CONSOLIDATED STATEMENT OF INCOME for the year ended December 31, 1981

	<u>1981</u>	<u>1980</u>
Revenue		
Gas and oil	\$1,450,401	\$1,162,565
Miscellaneous	105,381	184,779
	<u>1,555,782</u>	<u>1,347,344</u>
Expenses		
Cost of wells abandoned	286,596	41,655
Head office and administrative	318,027	245,339
Production	625,966	642,990
Depreciation and depletion	281,926	201,008
	<u>1,512,515</u>	<u>1,130,992</u>
Income (Loss) before income taxes and extraordinary items	43,267	216,352
Income taxes		
Deferred	<u>83,000</u>	<u>118,000</u>
Income from operations	<u>(39,733)</u>	<u>98,352</u>
Extraordinary items		
Gain on sale of wells	—	552,017
Write-off of other projects and interests	—	(4,610)
Gain on sale of investments	<u>12,458</u>	<u>12,786</u>
	<u>12,458</u>	<u>560,193</u>
Net income (Loss) for the year	<u>(27,275)</u>	<u>\$ 658,545</u>
Earnings per share		
Before extraordinary items	<u>\$ (0.007)</u>	<u>\$ 0.017</u>
After extraordinary items	<u>\$ (0.005)</u>	<u>\$ 0.114</u>

See accompanying notes to consolidated financial statements.

PLACE GAS & OIL COMPANY LIMITED

CONSOLIDATED STATEMENT OF DEFICIT for the year ended December 31, 1981

	1981	1980
Deficit at beginning of year	\$1,041,293	\$1,699,838
Net income (loss) for the year	(27,275)	658,545
Deficit at end of year	<u>\$1,068,568</u>	<u>\$1,041,293</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION for the year ended December 31, 1981

	1981	1980
Source of funds		
Income (Loss) from operations	\$ (39,733)	\$ 98,352
Add charges not requiring the use of funds		
Depreciation and depletion	186,994	201,008
Capitalized wells abandoned	144,896	
Deferred income taxes	83,000	473,140
Funds from operations	<u>375,157</u>	<u>772,500</u>
Gain on sale of wells	—	552,017
Gain on sale of marketable securities	12,458	12,786
Increase in amounts due from future production revenue	46,766	49,023
	<u>434,381</u>	<u>1,386,326</u>
Application of funds		
Purchase of fixed assets	284,290	1,243,278
Interest in oil syndicates	126,631	49,651
Other investments	210,231	144,088
Write-off of other projects and interests	94,932	4,610
	<u>716,084</u>	<u>1,441,627</u>
Decrease in funds	(281,703)	(55,301)
Deficiency of funds at beginning of year	(93,793)	(38,492)
Deficiency of funds at end of year	<u>(\$375,496)</u>	<u>(\$ 93,793)</u>
Represented by working capital deficiency		
Current assets	\$288,509	\$ 546,246
Less current liabilities	664,005	640,039
	<u>(\$375,496)</u>	<u>(\$ 93,793)</u>

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT

To the Shareholders of Place Gas & Oil Company Limited

We have examined the consolidated balance sheet of Place Gas & Oil Company Limited as at December 31, 1981 and the consolidated statements of income and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

Touche Ross & Co.
Chartered Accountants
Toronto, Ontario
April 21, 1982

PLACE GAS & OIL COMPANY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1981

1. Summary of significant accounting policies

The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles and conform in all material respects with International Accounting Standards.

a. Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned United States subsidiary.

The United Kingdom subsidiary has surrendered its offshore leases and retains an interest in one land lease, and consequently the Company wrote down its investment in the United Kingdom subsidiary to a nominal value of \$1 which it has not consolidated.

b. Depreciation

Depreciation is calculated on the straight-line method at 10% for buildings and equipment.

c. Depletion

Wells, gathering systems and oil and gas rights are depleted by the unit of production method based on estimated gas reserves. The unamortized costs of an abandoned well are charged against income at the time of abandonment.

d. Income taxes

Income taxes are accounted for by the tax allocation method. As allowed by the relevant income tax provisions and regulations, the Company has claimed certain deductions for income tax purposes in excess of the amounts charged to income for accounting purposes. Deferred taxes are provided on these timing differences.

e. Foreign exchange

Accounts in foreign currencies have been converted to Canadian currency on the following bases:

- i. current assets and current liabilities at the exchange rate on December 31;
- ii. fixed assets and other long-term assets, and long-term debt at historical rates of exchange; and
- iii. exchange gains and losses are included in determining net income for the year.

2. Other investments and interests

	<u>1981</u>	<u>1980</u>
Wholly-owned subsidiary (Note 1) shares, at nominal value	\$ 1	\$ 1
Affiliated companies and other interest, at nominal value	1	1
Shares in Panarctic Oils Limited, at cost	27,500	26,250
Securities on deposit, at cost	5,668	5,668
Investment in Roxy Petroleum Limited	92,800	92,800
Investment in Anschutz-Place Alberta Exploration	54,974	54,974
Investment in Delta-Place Bantry Area of Alberta	151,787	150,460
Investment in New Gateway Munson Area of Alberta	120,135	107,207
Investment in Blackfalds Project of Alberta	42,197	20,500
Investment in Bantry Lake Project of Alberta	173,029	—
	<u>\$668,092</u>	<u>\$457,861</u>

PLACE GAS & OIL COMPANY LIMITED

3. Fixed assets

	Cost	Accumulated depreciation and depletion
Land, buildings and equipment	\$ 635,892	\$ 515,271
Petroleum and natural gas interests	305,988	23,078
Producing wells	3,004,878	937,721
Gathering systems	730,294	308,759
	<u>\$4,677,052</u>	<u>\$1,784,829</u>

4. Amounts payable from future production revenue

Under an agreement between Pacific Lighting Gas Development Company of California (Pacific) and Place Gas & Oil Company Limited (Place), Pacific agreed to loan Place funds up to a certain limit in order that Place could meet its obligations relating to exploration costs in certain wells in Panarctic Oil Syndicate. Pacific thereby acquired the right to purchase from Place its share of any gas which may be produced from the said wells.

The loans including accrued interest total \$742,000. They are to be repaid to Pacific only out of 25% of Place's share of the revenue from production wells from which Pacific advanced funds.

5. Interests in oil syndicates

The company's interests consist of the following:

- i. Interests, varying from .2025% to 1.35% in approximately 1,394,000 acres on the Sabine Peninsula, Melville Island and on King Christian Island;
- ii. A 2.188% to a 2.647% interest in approximately 931,000 acres offshore in the Hazen Strait, northwest of the Sabine Peninsula.

6. Capital stock

	Shares	Par value	Discount	
Shares issued				
For cash	3,800,000	\$3,800,007	\$ 431,375	
For other consideration	2,000,000	2,000,000	1,570,000	
	<u>5,800,000</u>	<u>\$5,800,007</u>	<u>\$2,001,375</u>	<u>\$3,798,632</u>

7. Bank loan

Book debts have been pledged as security for the bank loan.

8. Statutory information

Total remuneration received by directors and senior officers of the Company for their services amounted to \$205,640 (\$210,000 in 1980).



Suite 3916 - Royal Trust Tower, Toronto, Ontario M5K 1H6